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RUEHLP/AMEMBASSY LA PAZ AUG QUITO 0597  
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SUBJECT: SECRETARY GUTIERREZ MEETS PRESIDENT ALAN GARCIA

Classified By: A/POL David C. Brooks, for Reasons 1.4 (c,d)

¶1. (U) President Alan Garcia met privately for 20 minutes with Commerce Secretary Carlos Gutierrez following the inauguration ceremony on July 28. The President was accompanied by Foreign Minister Jose Antonio Garcia Belaunde. Ambassador Struble joined the Secretary.

¶2. (C) Secretary Gutierrez congratulated President Garcia on his inauguration and said that President Bush was glad Garcia had accepted his invitation for an early visit to Washington.

The conversation quickly turned to a discussion of regional affairs. Garcia noted that Mercosur would have a difficult time absorbing new member Venezuela\*an action whose only justification is that Chavez has lots of money. Garcia noted that Argentine President Kirchner had promised to attend his inauguration but bowed out following the Cordoba Mercosur meeting, noting wryly "Kirchner has gotten enough money out of Chavez that he doesn't need anyone else."

¶3. (C) Garcia said that in his earlier bilaterals with Evo Morales and Ecuador's Palacios, he tried to counsel them against populist economic measures. Reiterating a theme he alluded to in his inaugural speech, Garcia told them he could easily raise one billion dollars in new revenue by compelling renegotiation of contracts with mining and energy firms in Peru, but in doing so he would put 24 billion dollars in prospective investment at risk. He told the Bolivian and Ecuadorian leaders that they needed to take the long view. Garcia recalled for Palacios that he had persuaded Occidental Petroleum to renegotiate its contracts in Peru during his first government. You could get away with something like that when Armand Hammer controlled the company, he told Palacios, because the man's pride made him reluctant to let go once he had started in a country. Occidental was now run on strictly business lines, however, and would react differently; Garcia urged Palacios to find a solution to the dispute.

¶4. (C) Comment: President Garcia only granted bilaterals to delegations headed by Chiefs of State with two exceptions -- the United States and Japan. In both instances, he wished to convey special regard for countries that are especially important donors and trade partners. Garcia's "counseling" of Ecuador and Bolivia reflect his government's concern that those countries are teetering between alignment with Venezuela or continued alignment with its Andean partners. We expect the new government to show greater activism in those two countries than the Toledo Administration.

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